
STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE



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TO: Assessing Officials and Vendors

FROM: Barry Wood, Assessment Division Director

RE: Release of Updated Cost Information for 2015 Annual Adjustment

DATE: October 31, 2014

The Department of Local Government Finance ("Department") is releasing updated cost schedules for the 2015 Annual Adjustment and ongoing cyclical reassessment. This release includes all cost schedules in Appendix C and Appendix G of the current Real Property Guidelines. Note that while the Location Cost Modifier tables are included in this update, the table values are the same as those published in the Department's February 7, 2014 memo "Updated Location Cost Modifiers for the 2014 Annual Adjustment" (see http://www.in.gov/dlgf/files/pdf/140207_-_Wood_Memo_-_Updated_Location_Cost_Modifiers_for_the_2014_Annual_Adjustment.pdf and http://www.in.gov/dlgf/files/pdf/140207_-_Wood_Memo_ATTACHMENT_-_2014_LCM_Final_List.pdf). Please note that the Department plans to update the cost schedules on a four (4) year basis, with an adjustment factor every two (2) years.

The depreciation schedules are not updated at this time. The depreciation base year for the 2015 Annual Adjustment will be March 1, 2015.

These updated cost schedules should be used to establish the replacement cost new (RCN) for residential, commercial, and industrial improvements for the 2015 Annual Adjustment and as part of the cyclical reassessment process. Adjusting the RCN for accumulated depreciation provides one estimate of the property's assessed value. **However, the assessor should adjust this cost estimate with local market information such as sales data to determine the market value-in-use of the subject property prior to tax billing.**

Scope of the Update

The cost schedules were updated with cost data from the Craftsman cost service. The unit costs used are listed in the 2014 *Craftsman National Construction Estimator* (NCE) and 2014 *Craftsman National Building Cost Manual* (NBC Manual). These costs were adjusted for local labor costs with the Craftsman Area Modification Factors for Indianapolis zip code 46204. These factors are available on page 13 of the 2014 NCE. For this update, the factor was 1.14, which is a 4% decrease from the 2012 value of 1.19.

When unit cost data was not available, cost schedules were adjusted with factors representing the average increase in construction costs from 2012 to 2014. These factors are listed in the Building Cost

Historical Index table on page 9 of the NBC Manual. Different factors were used for different types of construction. The factors are:

- Wood Frame: 1.06
- Masonry/Concrete: 1.06
- Steel: 0.95
- Agricultural: 1.08

When a general cost factor was needed, the average of the wood frame and masonry/concrete factors (1.06) was used.

All unit cost estimates include contractor overhead and markup. Following the 2014 NCE, this was set at 25% of total unit cost. As in prior years, cost schedules were adjusted to the Indiana market by a Verified Economic Modifier (VEM) calculated from new home costs. The VEM calculated in 2012 was used, as current cost and market data showed insufficient evidence to warrant further adjustment. The VEM adjusts Craftsman costs downward by 30%; therefore, the net adjustment to Craftsman unit costs for overhead, markup, and the Indiana market is -5%.

Summary of Key Changes in Updated Costs

As noted above, overall labor costs in Marion County decreased by 4%. Material and equipment costs were generally stable, with small increases in most items, and more substantial increases or decreases in some items. On average, base rates on the four primary schedules decreased slightly from 2012 values, because labor is the primary cost driver of these models. Base rates increased when an increase in material and equipment costs outweighed the decreasing cost of labor.

With a few exceptions, costs on the auxiliary cost schedules increased slightly. Other than a few exceptions in which model errors were corrected, none of the cost models changed from 2012.

Primary Cost Schedules

- First floor costs in the Dwelling Base Rate schedule increased by 2% for smaller properties, and 1% for larger ones. Both Frame and Brick costs increased at the same rate. Upper story costs decreased 2% overall, with larger properties experiencing more decrease than smaller ones. Attic costs decreased 6%, also with larger properties experiencing the greater decrease.
- Costs in the General Mercantile (GCM) schedule increased 1% on average. However, the Unfinished Basement use types (Parking, Utility Storage, Stand Alone Basement, and Parking Garage) each saw a 5% average decrease. These use types use structural steel beams, and the overall cost of steel decreased in the 2014 NCE. As a result, the basement shell cost decreased from \$20.84 / sq ft to \$19.61 / sq ft.
- Costs in the General Industrial (GCI) schedule decreased 2% on average. However, Light and Heavy Manufacturing rates increased 6% on average due to an error in the 2012 cost model that resulted in a \$2.79 HVAC cost for these use types. The correct HVAC cost should have been \$6.36; the updated cost is \$6.57.

- Basement costs in the General Residential (GCR) schedule increased by an average of 1%, while first floor and upper floor costs increased by an average of 5%. This 5% increase is primarily due to increased roofing costs. Unlike the dwelling models, GCR model roofs use a fink truss, which is more typical of light commercial construction than the standard residential truss. In 2014, fink truss costs increased from \$5.04 / sq ft to \$6.13 / sq ft.

Auxiliary Cost Schedules

- In Appendix C, Schedule D, the specialty plumbing item costs increased substantially. This increase is due to changes in Craftsman's methodology for pricing saunas and other specialty plumbing items. The Department examined Indiana supplier costs for these items, but did not find evidence that the Craftsman values are incorrect.
- The earth floor addition/deduction on Appendix C, Schedule G.2 increased from \$3.04 to \$5.29. The updated cost is the cost for a standard 4" slab, which is a better cost estimate than what was previously used.
- Almost all costs for Appendix G, Schedule E were updated with the 1.06 average construction cost factor. In general, Craftsman does not provide cost information for the specialized construction items found on this schedule.

Copies of the individual cost models and all supporting documentation used in their construction are available upon request.

If you have any questions, please contact Barry Wood, Assessment Division Director, at (317) 232-3762 or bwood@dlgf.in.gov; or David Schwab, Senior Statistician/Application Systems Analyst, at (317) 234-5861 or dschwab@dlgf.in.gov.